



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

## *Judicial Branch*

*For the Two Fiscal Years Ended  
June 30, 2012*

DECEMBER 2012

LEGISLATIVE AUDIT  
DIVISION

12-27

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**FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2011, was issued March 29, 2012. The Single Audit Report for the two fiscal years ended June 30, 2013, will be issued by March 31, 2014. Copies of the Single Audit Report can be obtained by contacting:

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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
Angus Maciver

December 2012

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Judicial Branch (branch) for the two fiscal years ended June 30, 2012. As a part of our audit, we analyzed financial transactions supporting the branch's financial schedules, tested compliance with federal laws and regulations related to the drug treatment courts and assessment program, and reviewed computer inventory controls for district courts and all courts of limited jurisdiction.

Included in this report are five recommendations to the branch concerning the use of nonGeneral Fund money first, drug treatment courts, and accounting errors. The branch's written response to the audit recommendations is presented on page B-1 of the report.

We thank the Chief Justice and branch personnel for their assistance and cooperation during the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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## ELECTED AND APPOINTED OFFICIALS

			<u>Term Expires</u>
<b>Supreme Court</b>	Mike McGrath	Chief Justice	2016
	Beth Baker	Justice	2018
	Patricia Cotter	Justice	2016
	Laurie McKinnon	Justice	2020
	Brian Morris	Justice	2020
	Jim Rice	Justice	2014
	Michael Wheat	Justice	2014
<b>Clerk of Supreme Court</b>	Ed Smith		2018
<b>Appointed Officials</b>	Beth McLaughlin, Court Administrator		
	Judith Meadows, State Law Librarian		

For additional information concerning the Judicial Branch, contact:

Beth McLaughlin, Court Administrator  
 Montana Supreme Court  
 P.O. Box 203002  
 Helena, MT 59620-3002  
 (406) 841-2957  
 e-mail: [bmclaughlin@mt.gov](mailto:bmclaughlin@mt.gov)







# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT Judicial Branch

For the Two Fiscal Years Ended June 30, 2012

DECEMBER 2012

12-27

REPORT SUMMARY

The Judicial Branch's (branch) main operations consist of the Supreme Court and district courts. The Supreme Court has general supervisory control over all other courts in the state. The branch can improve internal controls to comply with federal regulations and properly record all revenues and expenditures on the state's accounting records.

### Context

The judicial power of the state is vested in the Supreme Court; district courts in the 22 judicial districts; the Workers' Compensation Court; the Water Court; courts of limited jurisdiction; and any other courts established by law. Branch operations only include the Supreme Court, clerk of the Supreme Court, the Water Court, district courts, the state law library, and the computer technology of all courts of limited jurisdiction. District Court operations account for 70 percent of the branch's activity. Of the branch's 410 full-time equivalent staff, 311.5 work in the 22 judicial districts.

The 2005 legislature passed the Drug Offender Accountability and Treatment Act recognizing that district courts and courts of limited jurisdiction have a jurisdictional basis to implement drug treatment courts, in an effort to reduce recidivism and restore drug offenders to being productive law abiding and taxpaying citizens. During the audit period 18 of the 25 state drug treatment courts resided in district courts.

### Results

This report contains five recommendations on improving compliance with state and federal laws and regulations. Additionally, the branch did not record all revenues and expenditures associated with drug treatment court fees on its accounting records, and misclassified over \$400,000 of activity expenditures on its financial schedules each fiscal year.

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	1
<b>Source: Agency audit response included in final report.</b>	

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# Chapter I – Introduction

## Introduction

We performed a financial-compliance audit of the Judicial Branch (branch) for the two fiscal years ended June 30, 2012. The objectives of the audit were to:

1. Determine whether the branch complied with selected state and federal laws and regulations.
2. Obtain an understanding of the branch's control system to the extent necessary to support our audit of the branch's financial schedules, and if appropriate, make recommendations for improvement in the internal and management controls of the branch.
3. Determine whether the branch's financial schedules for each of the two fiscal years ended June 30, 2012, fairly present the results of operations in accordance with state policy.
4. Determine the implementation status of audit recommendations made in the prior audit.

This report contains five recommendations to the branch. In accordance with §5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #2 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Table 1 <u>Summary of Deficiencies in Internal Control</u>		
Subject	Type of Deficiency	Page
Revenue and Expenditure Misclassifications	Significant Deficiency	11

## **Background**

The Constitution of the state of Montana vests the judicial power of the state in one Supreme Court, district courts, justice courts, and such other courts as may be provided by law. The Supreme Court, which consists of a Chief Justice and six justices, has appellate jurisdiction and limited original jurisdiction. The Chief Justice is the head of the Supreme Court. The Court Administrator, appointed by the Supreme Court, serves as its administrative officer. The Supreme Court appoints the Law Librarian. The librarian develops and maintains the law library collection and administers library services.

The Supreme Court has general supervisory control over all other courts and may make rules governing appellate procedures, practice and procedure for all other courts, admission to the bar, and conduct of practicing attorneys. The rules of appellate procedure are subject to disapproval by the legislature in either of the two legislative sessions following promulgation.

Supreme Court justices and district court judges are elected to office in nonpartisan elections and serve eight-year and six-year terms, respectively. Terms of office and the procedure for filling vacancies in the courts are established in the Constitution and by statute. The legislature establishes the judicial districts and provides for the number of judges in each district. Currently, there are 46 district court judges in 22 judicial districts.

The Clerk of Supreme Court is elected to a six-year term on a partisan ballot in a statewide election. In accordance with §3-2-402, MCA, the clerk keeps the Supreme Court's records and files, performs functions relating to issuing writs and certificates, approves bonds, files all paper and transcripts, and performs other duties as required by the Supreme Court.

For fiscal management purposes, the branch is divided into six programs in fiscal year 2011 and five programs in fiscal year 2012. The branch is authorized full-time equivalent (FTE) staff level of 410.08 for fiscal year 2012. A description of each program follows:

**Supreme Court Operations** (64.25 FTE) accounts for the costs of operation of the Supreme Court and Office of Court Administrator (office). The office provides services to the branch including information technology, budget and finance, payroll and human resource management, policy and technical support for the Youth Courts, judicial education, children's services provided through the federal Court Assessment Program, and drug treatment court expenses supported by the General Fund and fee

revenue. The office also provides information technology services to courts of limited jurisdiction, which are not part of branch operations.

**Boards and Commissions** (3 FTE) accounts for expenditures related to activities of boards and commissions established either by the Constitution, statute, or the Supreme Court. These boards and commissions oversee judicial discipline, rules, admission to the bar, and other functions to improve and monitor the administration of justice. In fiscal year 2012, this program merged into Supreme Court operations.

**Law Library** (6.75 FTE) accounts for the operation of the State Law Library. The branch maintains the library for the use by the Supreme Court, the legislature, state officers and employees, members of the bar, and the general public.

**District Court Operations** (311.58 FTE) accounts for the payment of salaries, travel, training expenses, and operating costs for district court judges, their staff, and youth probation officers. It also includes drug treatment court expenses funded by federal grants and private donations, and certain adult criminal, child abuse, and child neglect case expenses.

**Water Courts Supervision** (19 FTE) accounts for expenditures of the water courts. Montana's water courts were created to adjudicate claims of existing water rights in Montana and supervise the distribution of water within the four water divisions of the state.

**Clerk of Court** (5.5 FTE) accounts for the costs of operation of the Clerk of Supreme Court.

### **Attached Agencies**

The Montana Medical Legal Panel and the Montana Chiropractic Legal Panel are attached to the Supreme Court for administrative purposes only and are audited separately. The panels review malpractice claims made against medical or chiropractic physicians and health care providers.

### **Prior Audit Recommendations**

The prior audit report of the branch for the two fiscal years ending June 30, 2010, contained three recommendations. One of the recommendations was implemented. Of the two remaining, one was partially implemented, and one was not implemented as discussed below.

The partially implemented recommendation deals with inadequate internal controls over the drug treatment court program. This issue is discussed in the report beginning on page 7.

The recommendation not implemented relates to developing control procedures over the reasonableness of district court fee revenue. Branch accounting personnel attempted to implement control procedures by reviewing data from the branch computer system. Attempts to reconcile revenues with fees assessed were not successful. Branch personnel intend to implement different procedures to analyze the reasonableness of fee revenues. We make no further recommendation at this time because of the branch's representation to implement different procedures, but will follow up during the next audit.

## Chapter II – Findings and Recommendations

### **NonGeneral Fund Money First**

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**The Judicial Branch (branch) spent over \$391,000 in General Fund monies when other unrestricted funding sources were available.**

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Before using General Fund appropriations, §17-2-108, MCA, requires the branch to apply expenditures against appropriated nonGeneral Fund money whenever possible, meaning the available authority does not have restrictions. Additionally, §46-1-1112, MCA, states that federal funds received from grants for the purposes of funding drug treatment courts must be exhausted before money is spent from other appropriations for that purpose.

We identified the following instances where the branch did not use another available, unrestricted funding source before it spent General Fund appropriations.

### **Drug Court Conference**

The branch paid \$33,972 for a drug court conference out of federal funds. At the end of the fiscal year, when the branch determined that there were available General Fund appropriations, branch personnel transferred the cost of the conference from the Federal Special Revenue Fund to the General Fund.

Branch personnel indicated they transferred the cost of the drug court conference to the General Fund because of potential supplanting issues with the federal grant and because the grant was open for one additional year. By transferring the cost of the conference, the branch could guarantee an additional training conference in fiscal year 2012 to benefit all drug treatment courts equally.

According to the federal guidelines, supplanting is deliberately reducing state or local funds because of the existence of federal funds. We do not believe using federal funds to pay the cost of the drug court conference is supplanting because the drug court conference was not originally funded with General Fund monies, and branch personnel asked for a grant modification to fund a drug court conference out of the federal funds.

### **Youth Courts and Drug Treatment Courts**

State law allows the branch to assess fees to youth court and drug treatment court participants to be used for purposes outlined in law. Over the past five years, the revenue collected from the assessed fees has declined. During the audit period, the

branch incurred some General Fund expenditures for youth court and drug treatment court operations, which were allowable expenditures of the fees assessed. As of June 30, 2012, \$357,847 of cash in the State Special Revenue Fund from fees assessed was available to support court operations. This means the branch could have reduced its General Fund expenditures by that amount.

Branch personnel believe the money collected from the individuals in these courts should be spent on goods or services that specifically benefit individuals in the courts, such as drug testing, counseling, required classes, or training for probation officers. They do not believe that the fee revenue collected should pay for the general operating costs of the courts, such as personal service costs. Branch personnel also believe they are following the “whenever possible” standard allowed in law. If they fully expend the drug treatment court and the youth court funds each fiscal year, they believe their base budget would become dependent on the fees assessed by the judges. They indicated this is not a steady stream of funding because the fee establishment is at the discretion of the judge and the office of court administrator does not have any authority to establish parameters regarding revenue collection. In the case of the drug treatment courts, branch policy prohibits the use of General Fund monies for some goods and services. The drug treatment courts can use fee revenues for incentives where they can not use General Fund monies.

We agree that the fee revenue is not a steady stream and different district court judges have different philosophies in assessing fees, however, statute does not support the current practice. During the audit period, the branch had cash and appropriation authority available in the State Special Revenue Fund for allowable court costs. The branch needs to address this through the appropriation process.

## Summary

The drug and youth court fee revenue and federal drug court revenues should be used to fund court operations before using General Fund appropriations. The branch could also seek legislation to obtain an exception to this law.

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### **RECOMMENDATION #1**

*We recommend the branch comply with state law and spend nonGeneral Fund money before using General Fund appropriations.*

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## **Drug Treatment Courts**

District court judges oversee 18 drug treatment courts across the state. The goal of drug treatment courts is to reduce recidivism and restore drug offenders to being productive, law abiding, and taxpaying citizens. State law provides the general structure of drug treatment courts, where courts:

- ◆ May provide incentives for good behavior under a written agreement.
- ◆ May provide sanctions for bad behavior under a written agreement.
- ◆ May provide additional services to help the drug treatment court participants become functional members of society.
- ◆ Require participants to pay a fee to participate in the drug treatment court, which may be waived or reduced if the participant is indigent.
- ◆ Require drug testing.

Each judge can implement the drug treatment court in any manner they see fit, as long as it is in accordance with this structure outlined in law. During the audit period, branch personnel had concerns regarding drug treatment court activities. In fiscal year 2011, they requested we review some of one drug treatment court's transactions. Based on the results of that review, we expanded our testing for the audit period and reviewed two more drug treatment court transactions. The next three sections further discuss issues related to these drug treatment courts.

## **Inadequate Controls and Noncompliance with Federal Regulations**

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**Drug treatment courts did not maintain adequate documentation for expenditures charged to a federal grant resulting in noncompliance with federal regulations and questioned costs exceeding \$10,000.**

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The branch received a federal grant which funds incentives and additional services for drug treatment court participants. Incentives, such as gift cards or gifts, are provided to participants to encourage and reward them for meeting rehabilitation goals. They receive additional services such as dental care, counseling, or prescription medication to assist them in becoming functioning members of society. These incentives and services are desirable and some are extremely susceptible to theft.

Branch policy specifically disallows the use of General Fund monies to purchase incentives.

Federal regulations require the branch to maintain internal control over its federal programs. In order for costs to be allowable to the federal grant, the branch is required

to comply with laws, regulations and provisions of grant agreements and to adequately document costs. Branch policy requires the drug treatment court coordinators to only indicate which participant received the good or service. This is not sufficient to comply with federal regulations.

A drug treatment court coordinator could indicate a specific participant received the good or service, but actually take the good or use the service themselves. Without documentation that drug treatment court participants actually received the good or service, the branch cannot demonstrate it spent the funds in accordance with the federal grant agreement.

During the audit period we identified instances where the branch did not maintain documentation identifying which drug court participants actually received the incentives or additional services. We reviewed 105 transactions amounting to \$23,026 at three different drug treatment courts. In 88 instances the drug court did not require the participant to sign for the good or service to indicate it was actually received.

Branch personnel indicated that each drug treatment court operates differently based on what the judge believes will work. They are working with drug treatment courts to require participant signatures to document when participants receive goods or services.

Since the branch did not maintain adequate documentation over its drug court expenditures, we identified federal questioned costs of \$11,548 in fiscal year 2011. Questioned costs for the audit period could be in excess of those identified, since we did not review all expenditures charged to the federal grant in fiscal years 2011 and 2012.

The branch should modify its policy and establish procedures to require participant signatures when drug treatment court participants receive incentives and additional services.

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**RECOMMENDATION #2**

*We recommend the branch implement internal control to ensure the courts maintain adequate documentation supporting federal expenditures as required by federal regulations.*

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## Improper Behavior

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**One drug treatment court coordinator misused a state procard, did not maintain proper custody of assets, and received a reimbursement without proper approval while performing drug treatment court duties.**

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Drug treatment court coordinators (coordinators) are responsible for coordinating the establishment, staffing, operation, evaluation and integrity of the drug treatment court. Of the 18 drug treatment courts, 11 of the coordinators are branch employees and 7 of the coordinators are contractors.

The branch requires drug treatment court coordinators to attend monthly trainings and has established guidelines which the court coordinators must follow. Contracted coordinators and branch employees are required to follow the guidelines established for normal procedures when that court was initially established. Additionally, branch employees are required to follow their job descriptions and the branch's code of conduct.

We reviewed 194 transactions related to incentives and additional services at one drug treatment court and identified seven instances where the drug court treatment coordinator did not utilize reasonable or necessary business practices.

- ♦ In one instance a branch employee allowed the contracted coordinator to use a state pro-card to purchase an on-line class. According to the judge, the coordinator does not have a pro-card. The purchase needed to be made so the coordinator used the branch employee's pro-card.
- ♦ We noted five different instances where the coordinator ordered books and gift cards for participants on-line and had the objects shipped directly to the coordinator's personal residence instead of the court address. The coordinator stated the items were shipped to the home address because the individual already had the home address established with the on-line sites.
- ♦ In one instance, a request for reimbursement, including attached receipts, was approved by the drug treatment court judge for payment. Subsequent to the judge's approval an additional receipt was added to the request for reimbursement. The coordinator attached the additional receipt to the previously approved request for reimbursement because it allowed for quicker reimbursement. The coordinator stated that the judge did see additional receipts, but there was no documentation to show the additional receipt was reviewed and approved by the judge.

We consider these behaviors inconsistent with behavior a prudent person would consider a reasonable or necessary business practice. Without proper guidance, there is an increased risk of fraud, illegal acts, or violations of grant agreements. The branch

should enhance its policies regarding proper business practices of drug treatment court coordinators and continue to provide training to the court coordinators to ensure they are aware of guidelines included in the policy.

### **RECOMMENDATION #3**

*We recommend the branch enhance its policies regarding proper business practices of drug treatment court coordinators.*

## **Unrecorded Revenue & Expenditure Activity**

**Certain drug treatment courts are not depositing fee revenues in accordance with state law and not recording the revenues and associated expenditures on the state's accounting records.**

Sections 17-1-102(4) and 17-6-105, MCA, require the branch to record all transactions on the state's accounting system before the end of the fiscal year to record the receipt and use of all money for which it is accountable, and to deposit all monies in banks designated by the state treasurer or with the state treasurer.

Ten drug treatment courts collect fees and pay expenditures with those fees. Six of these drug treatment courts, as discussed below, do not deposit the fees in the state treasury and do not record the revenues and expenditures on the state's accounting records. As a result, the branch financial schedules are understated by the amounts in Table 2. By not depositing the fees in the state treasury, the branch is not in compliance with state law, and there is a greater risk for loss, theft, or misuse of fee revenue.

Table 2  
**Understatements of Drug Court Revenues and Expenditures**

	FY11	FY12
Charges for Services (Revenues)	\$18,798	\$26,670
Benefits & Claims (Expenditures)	\$11,094	\$19,725

**Source: Compiled by the Legislative Audit Division from branch records.**

Branch personnel indicated the district court judge responsible for three drug treatment courts did not want to deposit the funds in the state treasury, but preferred to deposit the funds with the county treasurer. However, they indicated in fiscal year 2013 the court will begin depositing the funds in the state treasury and recording the related revenues and expenditures.

At the other three courts, branch personnel believe fee activity was not branch revenues or expenditures because in three drug treatment courts, the court coordinator is not a branch employee. Branch employees do not have primary control over the collection and expenditure of the funds and are unaware of amounts handled as a result of a court determination.

However, the branch has control of the drug treatment courts administered by district court judges. We believe the branch is accountable for the collection and disbursement of fee revenue regardless of who collects the monies.

The branch should deposit all monies received in banks designated by the state treasurer or with the state treasurer, and record all fee revenue and expenditures on the state's accounting records in accordance with state law.

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#### **RECOMMENDATION #4**

*We recommend the branch:*

- A. *Deposit all drug treatment court fee revenue in banks designated by the state treasurer or with the state treasurer, and*
  - B. *Record all drug treatment court revenue and expenditure activity on the state's accounting records in accordance with state law.*
- 

## **Misclassified Revenues and Expenditures**

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**During the audit period, the branch misclassified approximately \$200,000 in revenue and \$400,000 in expenditure activity annually on the state's accounting records.**

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State accounting policy provides guidance on recording revenue and expenditure activity on the state's accounting records. In addition, the branch is required to implement internal control to ensure activity is recorded in compliance with state accounting policy. We identified five instances where the branch did not record activity in accordance with state accounting policy. Tables 3 and 4 summarize the effect of the following misstatements.

Table 3  
**Total Misstatements by Account**  
**Schedule of Expenditures & Transfers-Out**

Account	Over (Under) stated	
	FY11	FY12
Other Services	\$ 278,323	\$ 361,453
Supplies & Materials	\$ 19,686	\$ 12,949
Travel	\$ 75,035	\$ 81,270
Other Expenses	\$ 31,012	\$ 21,625
Grants	--	\$ (2,100)
Benefits & Claims	\$(404,056)	\$(475,197)

**Source: Compiled by the Legislative Audit Division from branch accounting records.**

Table 4  
**Enterprise Fund Misstatements by Account**  
**Schedule of Revenues & Transfers-In**

Account	Over (Under) stated	
	FY11	FY12
Charges for Services	\$(207,265)	\$(186,876)
Miscellaneous	\$ 207,265	\$ 186,876

**Source: Compiled by the Legislative Audit Division from branch accounting records.**

♦ The branch provided grants to nonprofit organizations. The branch recorded the activity as an Operating Expense (Other Services) rather than Grants on the accounting records.

♦ The branch conducts various training conferences throughout the year. As part of the conferences the branch covers the cost of meals of the attendees. The branch recorded the cost of the meals as Travel rather than Supplies & Materials. In some cases the branch paid for travel costs of nonbranch attendees. The branch does not receive any benefit and is under no obligation to pay the travel costs of the nonbranch attendees. The branch recorded the nonbranch attendee travel costs as Operating Expenses (Travel) rather than Benefits & Claims Expense.

♦ The branch hires contractors, conference presenters, court reporters, and videographers. In addition to paying their contracted rate, the contracts include the payment of travel

expenditures. The branch recorded the travel portion of the contracted service as Travel rather than Other Services.

- ♦ The branch pays costs to help rehabilitate youth and drug treatment court participants. Many of these costs are results of court judgments and should be classified as a Benefits & Claims in accordance with state accounting policy because they provide assistance to individuals. The branch recorded many of these expenditures as Operating Expenses (Other Services, Supplies & Materials, and Other Expenses) rather than Benefits & Claims.
- ♦ The branch entered into a subscription contract with a legal research company to provide cost effective legal research access to governmental judges and attorneys. The branch sets up user access and bills entities for their access. The branch recorded this revenue as Miscellaneous rather than a Charges for Services.

Branch personnel indicated that in most cases there was an account code whose title resembled the type of expenditure the branch paid. Therefore they selected that specific account code. However there are fundamental differences within revenue and

expenditure categories and accounts established in state accounting policy. Branch personnel did not consider these differences when selecting account codes. As a result, there could be additional account misclassifications that we did not identify.

The review and approval of transactions is an integral internal control for financial reporting. To ensure branch revenue and expenditure activity is appropriately recorded on the state's accounting system, branch personnel reviewing and approving transactions need to understand state accounting policy. The branch personnel should become familiar with state accounting policy to ensure it records revenue and expenditure activity appropriately on the accounting records.

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**RECOMMENDATION #5**

*We recommend the branch implement adequate internal controls to ensure transactions are recorded in accordance with state accounting policy.*

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# **Independent Auditor's Report and Branch Financial Schedules**



## LEGISLATIVE AUDIT DIVISION

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Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Judicial Branch for each of the fiscal years ended June 30, 2012, and 2011. The information contained in these financial schedules is the responsibility of the branch's management. Our responsibility is to express opinions on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the branch's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Judicial Branch for each of the fiscal years ended June 30, 2012, and 2011, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor

October 5, 2012



JUDICIAL BRANCH  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Agency Fund
FUND BALANCE: July 1, 2011	\$ (1,666,382)	\$ 6,406,214	\$ (5,625)	\$ 1,852,863	\$ 10,386	\$ 0
PROPERTY HELD IN TRUST: July 1, 2011						\$ 9,406
ADDITIONS						
Budgeted Revenues & Transfers-In	220,929	3,784,429	1,309,350		186,877	
Nonbudgeted Revenues & Transfers-In	17,782	11,945	715			
Prior Year Revenues & Transfers-In Adjustments	(423)	4,364	(149)			
Direct Entries to Fund Balance	35,293,332	1,673,292				
Additions to Property Held in Trust						327,343
Total Additions	35,531,620	5,474,030	1,309,916	0	186,877	327,343
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	35,568,814	4,863,229	1,309,043	97,034	184,396	
Nonbudgeted Expenditures & Transfers-Out	12,839	2,586				
Prior Year Expenditures & Transfers-Out Adjustments	50,381	(493)	(4,298)			
Reductions in Property Held in Trust						329,880
Total Reductions	35,632,034	4,865,322	1,304,745	97,034	184,396	329,880
FUND BALANCE: June 30, 2012	\$ (1,766,796)	\$ 7,014,922	\$ (454)	\$ 1,755,829	\$ 12,867	\$ 0
PROPERTY HELD IN TRUST: June 30, 2012						\$ 6,869

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

JUDICIAL BRANCH  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Agency Fund
FUND BALANCE: July 1, 2010	\$ (1,561,681)	\$ 5,882,560	\$ 0	\$ 2,201,624	\$ 6,320	\$ 0
PROPERTY HELD IN TRUST: July 1, 2010						\$ 12,233
ADDITIONS						
Budgeted Revenues & Transfers-In	194,756	3,483,893	1,150,404		207,265	
Nonbudgeted Revenues & Transfers-In	12,589	8,593	1,383			
Prior Year Revenues & Transfers-In Adjustments	(573)	(6,415)	69			
Direct Entries to Fund Balance	34,932,077	1,545,913				
Additions to Property Held in Trust						470,403
Total Additions	<u>35,138,849</u>	<u>5,031,984</u>	<u>1,151,856</u>	<u>0</u>	<u>207,265</u>	<u>470,403</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	35,224,125	4,502,938	1,157,467	8,761	203,199	
Nonbudgeted Expenditures & Transfers-Out	(1,158)	4,502		340,000		
Prior Year Expenditures & Transfers-Out Adjustments	20,583	890	14			
Reductions in Property Held in Trust						473,230
Total Reductions	<u>35,243,550</u>	<u>4,508,330</u>	<u>1,157,481</u>	<u>348,761</u>	<u>203,199</u>	<u>473,230</u>
FUND BALANCE: June 30, 2011	\$ <u>(1,666,382)</u>	\$ <u>6,406,214</u>	\$ <u>(5,625)</u>	\$ <u>1,852,863</u>	\$ <u>10,386</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: June 30, 2011						\$ <u>9,406</u>

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JUDICIAL BRANCH  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>					
Licenses and Permits	\$ 115,475				\$ 115,475
Taxes	176		\$ 566		742
Charges for Services	48,131	\$ 329,602			377,733
Investment Earnings	2,426	713			3,139
Monetary Settlements	6,621				6,621
Grants, Contracts, and Donations		11,512			11,512
Transfers-in	25,000	3,453,087	475,308		3,953,395
Inception of Lease/Installment Contract	12,839				12,839
Federal Indirect Cost Recoveries	24,534				24,534
Miscellaneous	3,086	5,824		\$ 186,877	195,787
Federal			834,042		834,042
Total Revenues & Transfers-In	238,288	3,800,738	1,309,916	186,877	5,535,819
Less: Nonbudgeted Revenues & Transfers-In	17,782	11,945	715		30,442
Prior Year Revenues & Transfers-In Adjustments	(423)	4,364	(149)		3,792
Actual Budgeted Revenues & Transfers-In	220,929	3,784,429	1,309,350	186,877	5,501,585
Estimated Revenues & Transfers-In	191,300	3,827,349	1,309,350	209,001	5,537,000
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 29,629	\$ (42,920)	\$ 0	\$ (22,124)	\$ (35,415)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>					
Licenses and Permits	\$ 1,475				\$ 1,475
Charges for Services	4,713	\$ (26,232)			(21,519)
Investment Earnings		(344)			(344)
Monetary Settlements	2,621				2,621
Grants, Contracts, and Donations		448			448
Transfers-in		(16,792)			(16,792)
Federal Indirect Cost Recoveries	20,534				20,534
Miscellaneous	286			\$ (22,124)	(21,838)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 29,629	\$ (42,920)	\$ 0	\$ (22,124)	\$ (35,415)

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JUDICIAL BRANCH  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>					
Licenses and Permits	\$ 113,355				\$ 113,355
Taxes	2,792	\$ 223	\$ 1,452		4,467
Charges for Services	44,678	350,152			394,830
Investment Earnings	6,303	625			6,928
Monetary Settlements	5,606				5,606
Grants, Contracts, and Donations		14,568			14,568
Transfers-in	25,000	3,116,350	354,467		3,495,817
Federal Indirect Cost Recoveries	5,515				5,515
Miscellaneous	3,523	4,153		\$ 207,265	214,941
Federal			795,937		795,937
Total Revenues & Transfers-In	206,772	3,486,071	1,151,856	207,265	5,051,964
Less: Nonbudgeted Revenues & Transfers-In	12,589	8,593	1,383		22,565
Prior Year Revenues & Transfers-In Adjustments	(573)	(6,415)	69		(6,919)
Actual Budgeted Revenues & Transfers-In	194,756	3,483,893	1,150,404	207,265	5,036,318
Estimated Revenues & Transfers-In	191,400	3,491,744	1,150,404	215,000	5,048,548
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u>3,356</u>	\$ <u>(7,851)</u>	\$ <u>0</u>	\$ <u>(7,735)</u>	\$ <u>(12,230)</u>
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>					
Licenses and Permits	\$ 3,355				\$ 3,355
Charges for Services	(1,294)	\$ (7,396)			(8,690)
Investment Earnings		(455)			(455)
Monetary Settlements	606				606
Federal Indirect Cost Recoveries	515				515
Miscellaneous	174			\$ (7,735)	(7,561)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u>3,356</u>	\$ <u>(7,851)</u>	\$ <u>0</u>	\$ <u>(7,735)</u>	\$ <u>(12,230)</u>

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JUDICIAL BRANCH  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Boards and Commissions	Clerk of Court	District Court Operations	Law Library	Supreme Court Operations	Water Courts Supervision	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries		\$ 317,619	\$ 16,557,987	\$ 273,456	\$ 3,676,766	\$ 1,069,839	\$ 21,895,667
Employee Benefits		109,530	6,358,324	104,017	1,323,536	374,866	8,270,273
Total		<u>427,149</u>	<u>22,916,311</u>	<u>377,473</u>	<u>5,000,302</u>	<u>1,444,705</u>	<u>30,165,940</u>
Operating Expenses							
Other Services	\$ (44)	10,708	2,125,567	286,246	1,630,545	9,356	4,062,378
Supplies & Materials	44	16,378	369,016	266,125	938,200	25,751	1,615,514
Communications		8,818	237,686	13,744	922,208	34,584	1,217,040
Travel		3,641	440,303	1,709	198,150	6,848	650,651
Rent	300	7,803	50,257	1,883	514,951	104,336	679,530
Repair & Maintenance			40,540	11,530	545,353	7,780	605,203
Other Expenses	582	1,412	46,365	7,548	44,868	26,215	126,990
Total	<u>882</u>	<u>48,760</u>	<u>3,309,734</u>	<u>588,785</u>	<u>4,794,275</u>	<u>214,870</u>	<u>8,957,306</u>
Equipment & Intangible Assets							
Equipment			28,713	85,082	40,860	10,448	165,103
Capital leases - equipment				12,839			12,839
Total			<u>28,713</u>	<u>97,921</u>	<u>40,860</u>	<u>10,448</u>	<u>177,942</u>
Benefits & Claims							
To Individuals			2,764,032				2,764,032
Total			<u>2,764,032</u>				<u>2,764,032</u>
Transfers-out							
Fund transfers					9,436		9,436
Total					<u>9,436</u>		<u>9,436</u>
Debt Service							
Capital Leases				8,875			8,875
Total				<u>8,875</u>			<u>8,875</u>
Total Expenditures & Transfers-Out	\$ <u>882</u>	\$ <u>475,909</u>	\$ <u>29,018,790</u>	\$ <u>1,073,054</u>	\$ <u>9,844,873</u>	\$ <u>1,670,023</u>	\$ <u>42,083,531</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 882	\$ 475,909	\$ 25,086,656	\$ 888,658	\$ 9,179,929		\$ 35,632,034
State Special Revenue Fund			2,935,749		259,550	\$ 1,670,023	4,865,322
Federal Special Revenue Fund			996,385		308,360		1,304,745
Capital Projects Fund					97,034		97,034
Enterprise Fund				184,396			184,396
Total Expenditures & Transfers-Out	<u>882</u>	<u>475,909</u>	<u>29,018,790</u>	<u>1,073,054</u>	<u>9,844,873</u>	<u>1,670,023</u>	<u>42,083,531</u>
Less: Nonbudgeted Expenditures & Transfers-Out			2,503	12,839	82		15,424
Prior Year Expenditures & Transfers-Out Adjustments	<u>882</u>		<u>46,072</u>	<u>970</u>	<u>(985)</u>	<u>(1,349)</u>	<u>45,590</u>
Actual Budgeted Expenditures & Transfers-Out	0	475,909	28,970,215	1,059,245	9,845,776	1,671,372	42,022,517
Budget Authority		493,193	33,967,454	1,066,361	12,493,308	1,683,840	49,704,156
Unspent Budget Authority	\$ <u>0</u>	\$ <u>17,284</u>	\$ <u>4,997,239</u>	\$ <u>7,116</u>	\$ <u>2,647,532</u>	\$ <u>12,468</u>	\$ <u>7,681,639</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund		\$ 15,162	\$ 388,666	\$ 1,740	\$ 355,850		\$ 761,418
State Special Revenue Fund		2,122	3,143,507		69,395	\$ 12,468	3,227,492
Federal Special Revenue Fund			1,465,066		466,458		1,931,524
Capital Projects Fund					1,755,829		1,755,829
Enterprise Fund				5,376			5,376
Unspent Budget Authority	\$ <u>0</u>	\$ <u>17,284</u>	\$ <u>4,997,239</u>	\$ <u>7,116</u>	\$ <u>2,647,532</u>	\$ <u>12,468</u>	\$ <u>7,681,639</u>

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JUDICIAL BRANCH  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Boards and Commissions	Clerk of Court	District Court Operations	Law Library	Supreme Court Operations	Water Courts Supervision	Total
Personal Services							
Salaries	\$ 141,876	\$ 311,641	\$ 15,794,901	\$ 278,616	\$ 3,599,593	\$ 992,871	\$ 21,119,498
Hourly Wages			245				245
Employee Benefits	47,174	105,596	6,020,732	98,425	1,271,306	348,114	7,891,347
Total	<u>189,050</u>	<u>417,237</u>	<u>21,815,878</u>	<u>377,041</u>	<u>4,870,899</u>	<u>1,340,985</u>	<u>29,011,090</u>
Operating Expenses							
Other Services	34,485	8,297	2,122,635	295,851	1,689,445	14,988	4,165,701
Supplies & Materials	3,225	2,834	421,327	332,914	808,481	20,876	1,589,657
Communications	6,617	9,593	240,700	6,065	879,806	35,309	1,178,090
Travel	92,384	4,145	376,512	767	217,543	5,528	696,879
Rent	5,544	7,659	58,384	2,118	610,954	104,259	788,918
Repair & Maintenance	45		45,184	2,624	587,233	4,577	639,663
Other Expenses	2,663	2,512	37,605	5,567	51,090	21,742	121,179
Total	<u>144,963</u>	<u>35,040</u>	<u>3,302,347</u>	<u>645,906</u>	<u>4,844,552</u>	<u>207,279</u>	<u>9,180,087</u>
Equipment & Intangible Assets							
Equipment			99,247	66,980	86,620	21,033	273,880
Total			<u>99,247</u>	<u>66,980</u>	<u>86,620</u>	<u>21,033</u>	<u>273,880</u>
Benefits & Claims							
To Individuals			2,610,239				2,610,239
Total			<u>2,610,239</u>				<u>2,610,239</u>
Transfers-out							
Fund transfers			15,000		357,619		372,619
Total			<u>15,000</u>		<u>357,619</u>		<u>372,619</u>
Debt Service							
Capital Leases			3,434	9,972			13,406
Total			<u>3,434</u>	<u>9,972</u>			<u>13,406</u>
Total Expenditures & Transfers-Out	\$ <u>334,013</u>	\$ <u>452,277</u>	\$ <u>27,846,145</u>	\$ <u>1,099,899</u>	\$ <u>10,159,690</u>	\$ <u>1,569,297</u>	\$ <u>41,461,321</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 250,902	\$ 452,277	\$ 24,447,872	\$ 896,700	\$ 9,195,799		\$ 35,243,550
State Special Revenue Fund	83,111		2,703,034		152,888	\$ 1,569,297	4,508,330
Federal Special Revenue Fund			695,239		462,242		1,157,481
Capital Projects Fund					348,761		348,761
Enterprise Fund				203,199			203,199
Total Expenditures & Transfers-Out	<u>334,013</u>	<u>452,277</u>	<u>27,846,145</u>	<u>1,099,899</u>	<u>10,159,690</u>	<u>1,569,297</u>	<u>41,461,321</u>
Less: Nonbudgeted Expenditures & Transfers-Out	(9)	(21)	3,734	(21)	339,777	(117)	343,343
Prior Year Expenditures & Transfers-Out Adjustments			22,021	523	(904)	(150)	21,490
Actual Budgeted Expenditures & Transfers-Out	<u>334,022</u>	<u>452,298</u>	<u>27,820,390</u>	<u>1,099,397</u>	<u>9,820,817</u>	<u>1,569,564</u>	<u>41,096,488</u>
Budget Authority	380,456	474,245	32,445,111	1,107,434	12,829,974	1,625,657	48,862,877
Unspent Budget Authority	\$ <u>46,434</u>	\$ <u>21,947</u>	\$ <u>4,624,721</u>	\$ <u>8,037</u>	\$ <u>3,009,157</u>	\$ <u>56,093</u>	\$ <u>7,766,389</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 42,953	\$ 21,947	\$ 507,235	\$ 1,445	\$ 416,119		\$ 989,699
State Special Revenue Fund	3,481		2,985,628		111,775	\$ 56,093	3,156,977
Federal Special Revenue Fund			1,131,858		628,400		1,760,258
Capital Projects Fund					1,852,863		1,852,863
Enterprise Fund				6,592			6,592
Unspent Budget Authority	\$ <u>46,434</u>	\$ <u>21,947</u>	\$ <u>4,624,721</u>	\$ <u>8,037</u>	\$ <u>3,009,157</u>	\$ <u>56,093</u>	\$ <u>7,766,389</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

## Judicial Branch Notes to the Financial Schedules For the Two Fiscal Years Ended June 30, 2012

### 1. Summary of Significant Accounting Policies

#### Basis of Accounting

The branch uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Capital Projects). In applying the modified accrual basis, the branch records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the branch incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the branch to record the cost of employees' annual and sick leave when used or paid.

The branch uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the branch records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the branch receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

#### Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The branch uses the following funds:

#### Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources other than capital projects that are legally restricted to expenditures for specific state program purposes. Branch State Special Revenue Funds

include Youth Court fees, Juvenile Delinquency Intervention Program Surplus, Renewable Resources, Law Library Digital Project, Judicial Education, Water Adjudication, Legal Assistance, Natural Resources, Drug Court Fees, Accrued County sick and vacation leave balances, and Judiciary private funds.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Branch Federal Special Revenue Funds include miscellaneous grants for District Courts, and various branch grants for computer licenses and computer hardware.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The branch uses this fund for Long Range Information Technology Projects.

### Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the branch finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Branch Enterprise Funds include the Law Library Searches/Research fund.

### Fiduciary Fund Category

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The branch agency funds include Bad Debt Collection and District Court Youth Probation Restitution.

## 2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The branch has authority to pay obligations from the statewide General Fund within its appropriation limits. The branch expends cash or other assets from the statewide fund when it pays General Fund obligations. The branch's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2011 and June 30, 2012.

### **3. Direct Entries to Fund Balance**

Direct entries to fund balances in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

### **4. Supreme Court Operations**

The Supreme Court Operations Program includes funding (\$3.8 million in fiscal year 2011 and \$3.7 million in fiscal year 2012) for providing technology services to approximately 1,000 users within the Supreme Court, the Water court, 56 District Courts, 7 Municipal Courts, 65 Justices Courts, and 90 City Courts. This support includes the purchase, installation, networking, and maintenance of computers and office software and the deployment, training, and maintenance of court case management systems. In addition, support is provided for courtroom technology, including interactive video, court reporting and recording equipment, sound systems, and other technologies found in the District Court courtrooms.

The Supreme Court Operations Program includes General Fund (approximately \$750,000 in fiscal year 2011, and \$795,000 in fiscal year 2012) to support the operation of Drug Treatment Courts throughout Montana. Federal funds received in support of Drug Treatment Courts are included in the District Court Program of the Judicial Branch.



JUDICIAL BRANCH

BRANCH RESPONSE





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LEGISLATIVE AUDIT DIV.

THE SUPREME COURT OF MONTANA

MIKE McGRATH  
CHIEF JUSTICE



JUSTICE BUILDING  
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December 3, 2012

Ms. Tori Hunthausen, Legislative Auditor  
Legislative Audit Division  
Room 135, State Capitol  
Helena, MT 59620

Re: Judicial Branch Financial-Compliance Audit for FY 2011 and FY 2012

Dear Ms. Hunthausen:

We have reviewed the December 2012 Financial-Compliance Audit of the Judicial Branch for the two fiscal years ending June 30, 2012. As always, we value the assistance from your office in helping us identify areas in which accounting weaknesses or gaps exist. We appreciate the opportunity to respond.

The audit contains five recommendations for improving the Branch's fiscal operations. Our responses and corrective actions are presented below:

**Recommendation #1**

We recommend the branch comply with state law and spend nonGeneral Fund money before using General Fund appropriations.

**Response:**

We do not concur. The Office of Court Administrator (OCA) believes that the branch followed the law by spending nonGeneral Fund money "whenever possible" before using general fund appropriations. The allowed statutory discretion was used in both cases noted in the audit.

**Recommendation #2**

We recommend the branch implement internal control to ensure the courts maintain adequate documentation supporting federal expenditures as required by federal regulations.

**Response:**

We concur. The OCA has implemented this recommendation. The OCA developed and implemented procedures for ensuring adequate documentation for client related expenditures in drug courts.

**Recommendation #3**

We recommend the branch enhance its policies regarding proper business practices of drug treatment court coordinators.

**Response:**

We concur. The OCA has implemented this recommendation. The OCA has internal control procedures in place to monitor the proper business practices of drug treatment court coordinators and provides on-going training and guidance regarding fiscal policies.

**Recommendation #4**

We recommend the branch:

- A. Deposit all drug treatment court fee revenue in banks designated by the state treasurer or with the state treasurer, and
- B. Record all drug treatment court revenue and expenditure activity on the state's accounting records in accordance with state law.

**Response:**

We concur. The OCA will record all drug treatment court revenue and expenditure activity on the state's account records in fiscal year 2013 and forward.

**Recommendation #5**

We recommend the branch implement adequate internal controls to ensure transactions are recorded in accordance with state accounting policy.

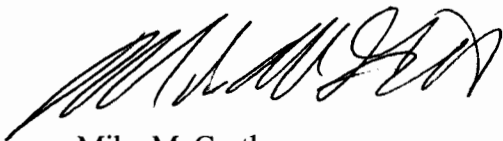
**Response:**

We concur. The OCA has reviewed the state account policy regarding expenditure and revenue account codes and will record all future transactions in accordance with policy.

We would like to personally thank your staff for conducting this audit in such a cooperative, professional manner. Their findings and recommendations provide valuable insight as we continue to provide judicial services in a fiscally appropriate and prudent manner.

We are available to answer questions or provide further information that you or the Legislative Audit Committee may require. We assure you that we will continue to do our very best to maintain proper fiscal accountability within the Judicial Branch.

Sincerely,



Mike McGrath  
Chief Justice



Beth McLaughlin  
Court Administrator